

# Nine questions to help you get your digital transformation right

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Becoming a digital organization requires fundamentally changing how you do business. Answering these nine questions can help break through the inevitable barriers.

**Is there a more anxiety-inducing term** in today's corporate lexicon than "digital transformation"? Probably not, given the high stakes involved. New technologies and business models are upending entire sectors, threatening incumbents with an unprecedented wave of disruptive forces. Corporate leaders understand the need to raise their Digital Quotient,<sup>1</sup> but many are struggling with how to do it.

Digital experiments such as innovation labs and new digital products have yielded notable successes. But how do you transform your organization from an enterprise that engages in digital to a digital enterprise? This is no small challenge for companies with thousands of employees, assets worth billions, and established business models.

Practices such as committed leadership, targeted communications, and appropriate incentives are crucial to successful transformations. Yet the principles and behaviors that drive the process are equally important. In our experience, answering the following nine questions greatly improves a company's chances of getting its digital transformation right.

## **How well do you know where change is occurring?**

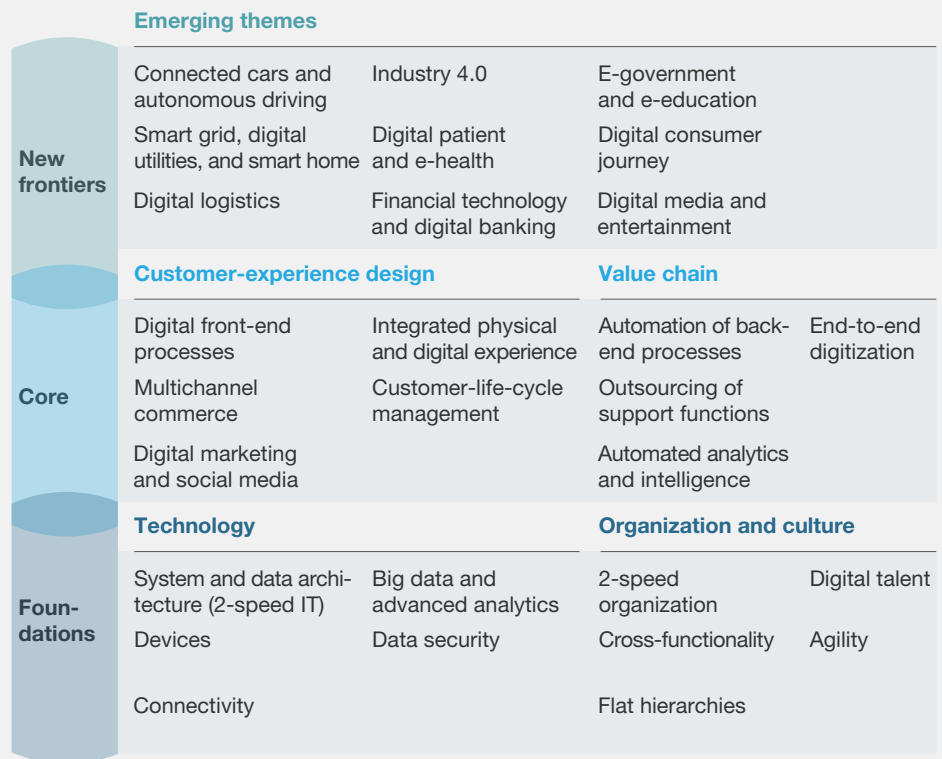
Because digital is so ubiquitous and affects so many aspects of customer behavior and company operations, it can be difficult to know where to begin. To demystify the process and bring structure to it, we suggest leaders review the new frontiers where big changes are happening, the core elements of the business affected by change, and the foundations needed to support the change (Exhibit 1). Systematically working through the elements and ranking each by its likely impact and feasibility provides a clearer picture of how the landscape is changing and how to think through the implications for your business. It's important to look beyond your own sector: digital disruption doesn't respect industry boundaries.

<sup>1</sup> See Tanguy Catlin, Jay Scanlan, and Paul Willmott, "Raising your Digital Quotient," *McKinsey Quarterly*, June 2015, [mckinsey.com](http://mckinsey.com).

## Exhibit 1

Leaders must understand where digital is having the greatest impact.

Digital affects core businesses, opens new frontiers, and requires foundational change.



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## Do you know which customer journeys matter?

When it comes to putting together a plan, we find it helpful to think about customer journeys—that is, the sum of an individual's interactions with a brand across all channels to accomplish a task. Focusing on these helps ground the transformation in the practical realities of change by keeping the customer front and center. Optimizing a customer journey forces a company to identify every technology, process, capability, and transition needed to deliver a great experience.

After mapping the customer journey from beginning to end, companies can focus on how digital can make each touchpoint better, faster, and more efficient, as well as integrate all of them into one coherent experience. Key performance indicators, metrics, and performance incentives will need to be adjusted to track and reward progress on customer journeys instead of channels or product performance.

Opening a bank account has traditionally been a tiresome task that often takes customers a couple of weeks, requiring them to collect, complete, and mail forms so the institution can verify their identity. But when one bank digitized its account-opening process using smartphone support and video verification, for example, it cut the time in half—and saved time and effort for the bank as well.

### **Are your teams collaborating across functions?**

A digital transformation can't succeed simply by creating a separate enclave for digital activities—even if that's how it begins—because it touches so many functions across a company. Our analysis has shown that digital leaders place a premium on internal collaboration, creating processes and teams that integrate various functions across the business and developing incentives for sharing. We've seen companies succeed by building a cross-functional team that brings together key people from marketing, sales, product development, and IT for specific projects. Spotify, for example, assembles self-managing project teams of people who bring complementary skills to a task. Similarly skilled people in the company participate in guilds where they share their expertise and discoveries. People move from project to project in a dynamic operating model.

To build momentum, cross-functional teams need visible CEO support, a clear mandate to get things done, enough resources to build out a program, and profit-and-loss responsibility and accountability. Incentives must reward the successful delivery of an entire customer journey or complete product rather than actions that matter only for a particular function. That could mean, for example, rewarding people who develop an analytics model that generates actionable insights over those who simply produce a greater number of models.

### **Do you have a disciplined 'test and learn' approach?**

However much you plan, you can't be sure something will work until you try it. Successful companies work on a concept and keep testing it with customers. They iterate until they get it right—not only delivering what customers want but also understanding why they want it so that issues can be addressed and emerging needs factored in. With this approach, companies avoid getting caught up in overly deterministic specifications, market research that misses the point, and long planning cycles that end up producing something customers don't want.

But “test and learn” doesn't mean just letting teams do as they like. Advanced digital companies continuously review their actions and investments against data on all parts of the customer journey—cohort analysis, conversion patterns, and customer-engagement levels—as well as the broader competitive environment. For example, one long-established publishing house set ambitious targets to earn half its revenue and profit from digital media within ten years but managed to do so within six, thanks to relentless tracking of digital key performance indicators and prompt course correction when needed. A mobile-telecommunications provider adopted a similar approach, setting clear methods and targets for in-store customer migration. It succeeded in increasing incremental sales by 5 to 10 percent and more than halving customer onboarding time.

### Are your budgets tied to progress?

Many transformation efforts are hampered by budgetary cycles that aren't sufficiently responsive to what's happening in the company. According to our Digital Quotient analysis, less than 15 percent of companies can quantify the return on investment of their digital initiatives. Venture capitalists offer an alternative model. They closely follow their projects' development and don't hesitate to either pull the plug if key performance indicators fail to move in the right direction or quickly pump in more funding if performance justifies it. Their investment decisions don't hinge on a typical three- to five-year "hockey stick" business plan but take into account short-term milestones: not necessarily hard-dollar outcomes but measures such as growth in new-customer sign-ups or customer engagement in a particular product (Exhibit 2).

#### Exhibit 2

**Investment should be linked to progress, not fixed to budget cycles.**



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One large consumer-packaged-goods company, for example, dedicated 10 percent of its marketing budget to experiments and innovations. The budget operated outside normal corporate processes and was used to quickly fund new ideas that promised to perform well. Such an approach can only succeed, though, when metrics are put in place to track return on investment.

### Do you have mechanisms to challenge ideas?

Despite what we may have heard during brainstorming sessions, not all ideas are good ideas. To prevent poor or poorly thought-through ideas from squandering resources, some companies set up a “challenger board” that includes people who know the business inside out and digital natives hired from start-ups or tech companies. With their deep digital experience and outsider perspective, these experts can ask tough questions, uncover problems quickly, and spot opportunities for disrupting the business. Another option is to set up a dedicated advisory board to guide a company through its transformation. Introducing external voices to existing governance structures is another way to inject added critical scrutiny into decision making. IKEA took this route when it appointed the head of Google Sweden to its board in 2014 to improve its e-commerce and online presence.<sup>2</sup>

### Are your people empowered to act?

In large organizations, there are always reasons not to do something new. Fear of cannibalization—or simply fear of change—can paralyze new projects. Turf battles can kill a digital transformation. That’s why effective teams need real business responsibility, the authority to break through functional silos, and a willingness to lead.

Leading a digital initiative involves short-circuiting lengthy corporate processes and moving things quickly. That calls for dedicated budgets and resources, as well as CEO-level decision-making powers. At one company undergoing a digital transformation, for example, project leaders were known as “dragon slayers” and had a remit from the CEO to act fast without advance approval. They took the flak for bad choices but knew the one mistake that wouldn’t be forgiven was avoiding tough decisions in the first place.

At another company, when the board approved the use of marketing channels for e-commerce offerings, the relevant middle manager balked. The digital program wasn’t stalled, though, because the effort’s leader had the authority to organize a marketing campaign outside the usual channel and fire the middle manager. Harsh though this may sound, it’s the sort of can-do approach that’s critical if transformations are to succeed.

### Is your IT operating at two speeds?

It’s hard—perhaps impossible—to undergo a digital transformation with a legacy IT architecture. While the integrity of transaction-focused systems with sensitive data must be protected, IT needs to build out a separate system that can provide nimble customer-facing capabilities. New apps and databases can then be added as needed without touching the underlying systems that run the rest of the business. This second high-speed system supports agile development and prototyping, with weekly or even daily releases and an experimental “fail faster” mind-set.<sup>3</sup>

In developing high-speed systems, digital leaders put in place the analytics and intelligence needed to provide near-real-time insights into customer needs and behaviors, which then determine the personalized messages and offers delivered to individual customers. Being digital involves establishing a cyclical dynamic in which processes and capabilities are constantly evolving in response to inputs from the customer.<sup>4</sup> Supporting this give-and-take process across multiple platforms at scale requires extensive automation.

<sup>2</sup> Todd R. Weiss, “IKEA names former Google Sweden head to its board,” *eWeek*, January 3, 2014, [eweek.com](http://eweek.com).

<sup>3</sup> For more, see Juan Garcia Avedillo, Duarte Begonha, and Andrea Peyracchia, “Two ways to modernize IT systems for the digital era,” *McKinsey on Business Technology*, August 2015, [mckinsey.com](http://mckinsey.com); and Oliver Bossert, Chris Ip, and Jürgen Laartz, “A two-speed IT architecture for the digital enterprise,” *McKinsey on Business Technology*, December 2014, [mckinsey.com](http://mckinsey.com).

<sup>4</sup> See Karel Dörner and David Edelman, “What ‘digital’ really means,” July 2015, [mckinsey.com](http://mckinsey.com).


### Are you coordinating a portfolio of initiatives?

A digital transformation isn't a single effort but rather a portfolio of initiatives that combine to scale the change. Having a "let a hundred flowers bloom" approach, where each initiative works independently in a spirit of experimentation, can yield interesting results, but it is not a formula for scaling a digital transformation across a business. While each initiative is executed by a small cross-functional team and draws on broader support for operations and implementation, success ultimately depends on how management coordinates initiatives as they run in parallel.

Executives need to map out each initiative, ensuring it is clearly aligned with the broad business strategy. They then must prioritize the initiatives, determine the dependencies between them, and coordinate resourcing and budgeting. Leading digital companies manage a portfolio of hundreds—if not thousands—of initiatives in parallel. They also automate repetitive tasks wherever possible, freeing management to spend more time on strategic change and growth projects.

This level of coordination was critical for a European book retailer experiencing extreme pressure from online competition. Its digital transformation included partnering with technology specialists and publishers to establish its own digital reader, implementing omnichannel features such as digital kiosks in its physical outlets, and overhauling its online shop. All the initiatives had to happen virtually simultaneously because they were all central to the customer experience and the company couldn't afford the delays of a more sequential approach. Eventually, the retailer introduced a successful e-reader and omnichannel experience that helped increase revenue by 78 percent.



Becoming a digital enterprise requires fundamentally changing the way you run your business. Answering these nine questions can help you understand how to break through the inevitable barriers, increasing your company's odds of achieving a successful digital transformation. 

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